THE
National Debt
AND THE
CURRENCY,

By EMERIC SZABAD,
(Late U. S. Army.)

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THE NATIONAL DEBT AND THE CURRENCY.

The writer of the following pages, a perfect novice in the "Golden Art," is far from presuming authoritatively to relieve the country, either of the redundancy of the currency or the redundant financial twaddle. With him, the investigation of the standing question was simply a matter of curiosity; and the conclusions he may arrive at, may, or not, prove satisfactory. What however he flatters himself with, is, that his review and discussion of the subject will be productive of some good—by way of suggestion.

Correctly speaking, finance is the science of variations, full of whims and subtleties; a sort of monetary climatology, subject, despite certain unalterable laws, to sudden and violent changes. Almost every great commercial crisis of modern times tells of a vicious circle. Now it is superabundance, now scarcity; here too much enterprise, there want of enterprise; at one time speculation, at another, stagnation; one country suffers for want of money, the other groans under an abundance thereof. But if no method has hitherto been discovered by which to prevent sudden commercial or financial convulsions, experience, aided by science, furnishes modes enough as to how to remedy the evils after they have come to pass.

To begin with the beginning, let us first glance at the practical meaning of money, both metallic and paper money.

Money, in a practical sense, is a commodity easily exchangeable for the necessaries of life and other commodities. Before money existed exchanges took place by barter; Diomedes, for example, to procure his armor, had, as Homer

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tells us, to give in exchange six oxen; and the money of the Icelander was and is, dried codfish.

Modern nations, however, by tacit consent, took for their medium of exchange the precious metals, and with a market preference for gold. The use of precious metals in certain quantities according to their weight, led to the more convenient system of coinage, the inscription on the coin dispensing with the necessity of weighing. A dollar in silver weighs about a dollar worth of silver, a pound sterling is substantially worth the same amount in bullion. That gold should have become the standard *par eminence* is natural enough. Its exquisite lustre, compactness, divisibility, durability, as well as mouldable nature, all conspire to make it the king of metals. Nor can we altogether overlook the innate and unconquerable sympathy of civilized man to this yellow ore. One more quality remains to be noticed: it is that gold precludes all fears of glut; hence the slight changes in its appreciation. From the laborious researches of writers on Political Economy and Finance, we know that between the years 1848 and 1856 the Californian and Australian mines yielded 174 millions sterling, say 800 millions dollars; that is one-third of the whole amount previously existing in Europe. Yet this prodigious gold harvest failed to produce any sensible change in the market price of gold. Nor did these wonderful excavations make the world richer, from the simple reason that the capital and labor brought to bear on the mines presented an outlay fully as much as the 174 millions obtained. The sole great effect of this vast addition of gold, and which, by a peculiar law of its own, was mainly divided between the United States, England, and France, was, that it stimulated commerce and aided some governments to pass through a period of pressure for specie. But, on the other hand, if gold could be multiplied as easily as paper money, there can be no doubt but that its value would be subject to serious fluctuations.

From metallic money to paper money the descent was both easy and natural; and what was first devised by individuals was soon imitated by governments. The difference between metallic and paper money is evident enough. In coin the denomination is merely the indicator of the intrinsic value; in paper money the impress is the value. The same piece of paper may be stamped into the nominal value of one or a thousand dollars; but not so with metal. Paper money, therefore, unless secured by something else, means

nothing more than a promise; and its value in the market will necessarily fluctuate according to the degree of credit enjoyed by the promise maker.

But though only a certificate of value, and not value itself, paper currency, from its cheapness, the facility with which it is created, and the ease of its transmission from place to place, soon came to constitute by far the most potent medium of commerce and productiveness; not, however, without producing, from equally-evident reasons, periodic convulsions, and of a nature which, with a purely metallic currency, would be impossibilities. The era of credit dates from the introduction of paper money.

It was not without reason that Pope sang:

> "Blest paper credit! last and best supply,
> That lends corruption lighter wings to fly;
> Gold imp'd by thee can compass hardest things,
> Can pocket States, can fetch or carry kings.
> A single leaf shall waft an army o'er,
> Or ship off Senates to some distant shore—
> A leaf like Sibyl's scatter to and fro
> Our fates and fortunes as the winds shall blow;
> Pregnant with thousands flits, the scrap unseen
> And silent sells a king or buys a queen."

Yet, the wonders of paper money in the poet philosopher's time were, so to say, nothing to what happens now adays. Just look at what is called the Clearing-House in London! In this quiet establishment, between noon and sunset, some fifteen millions dollars change hands daily, without as much as the faintest tinkling of a coin. Who would imagine that this headlong, prodigious traffic was going on in a country which spent the first twenty years of the present century under the suspension of cash payments, and which was since repeatedly put to the test of fresh financial crisises?

Considering the fact that the amount of the paper medium of every commercial country is far above its metallic money, and that on great or unforeseen emergencies, such as wars, recourse is generally had to the multiplication of this willing medium as the readiest means—the fluctuations in the money market follow as a matter of course. In other words, the moment the issue of paper-money passes a certain limit, the public gets distrustful; and the uneasiness, communicated from one party to another, ends, in many instances, in a panic—sometimes with, sometimes without, sufficient reasons. The paper—consols, or greenbacks—an object of delight but yesterday, become now a burden; and he who

can rushes in blind haste to exchange his commodity for gold. In some instances, as is the case in the United States now, the disturbance of the monetary system settles down into a marked and languid discount, keeping gold and paper at a respectable distance from each other.

The present depreciation of the United States paper currency, it must be owned, offers a no common phenomenon. Why should it be necessary to give one dollar and thirty-five cents in greenbacks for one dollar in gold? With the symptoms of the disease we are well enough acquainted. We all know that a depreciated currency is an unpleasant thing; that it disturbs commerce and industry; that gold is high, and that the depreciated paper drives gold from the market. But, to get at the right remedy, and arrive at a proper solution, one must above all try to find out the cause of these phenomena, the substratum of these evils. Let us premise that all arguments on the merits of the expansion and contraction of the currency, and the transition from paper to cash payments, involving such complicated questions as the nature of mercantile credit, prices and profits, unless discussed comprehensively, are at the best fumes of fancy. A man may study the properties of nitre, sulphur, and charcoal to eternity, but it is only by understanding the law of combination and affinity that he will be able to produce such a commodity as gunpowder!

Measured by the necessaries of the country, and the spirit of enterprise, characteristic of American society, the depreciation of the currency can certainly not be accounted for by the theory of excess. Even those who most earnestly advocate the displacement of greenbacks by something else, concede that the country would be exposed to great inconveniences by a contraction of the circulating medium. There remains, therefore, only one reason for the great disparity between metallic and paper-money, viz: the want of confidence. It is distrust in the certificates of the Government by the commercial world that makes the price of paper stamped one dollar, worth thirty-five cents less than a dollar in gold. The primary reason of want of confidence in ordinary cases, where bad faith is out of question, proceeds from over-indebtedness, fears of insolvency. Whether or not such disturbing influences apply to the case in question, can perhaps best be seen by comparison. Great Britain will fully serve our purpose.

In 1815, after a long period of war, during which she sub-

sidised the other powers arrayed against Napoleon, England came out with a load of a public debt amounting in round numbers to eight hundred millions sterling, or four thousand millions of dollars. The public revenue of the first year of peace was four hundred and ninety millions, of which one hundred and fifty-five millions—about a third—was required for paying the interest on the debt. The population of Great Britain and Ireland then amounted to about fourteen millions—less than half the population of the United States at the end of our war. The fatal legacy of the war—the public debt—was no doubt heavy, and felt the more keenly from the havocs experienced during the period of war, in the way of famines and bankruptcies. The dawn of peace may be said to have found John Bull covered all over with sores and in rags, and, moreover, threatened with fresh famines, thanks to the oppressive and stupid corn laws. The guineas had taken refuge in other countries, or were hoarded; the suspension of specie payments, dating back to 1797, was still in force; farmers and merchants were out of their wits; and the laboring classes, maddened by distress, sought relief in desperate robberies, incendiarism, and the destruction of machinery—a most extraordinary complexity of adverse circumstances. Yet the depreciation of bank notes—the greenbacks of England—did not go below seventeen per cent., and a few years sufficed to raise them nearly to par. Now, as the Bank of England, though a powerful State engine, is in fact a private institution; and, as the English Government cannot be called upon to pay the liabilities of the Bank, what else than unshaken confidence in the solvency of the Bank kept up the value of its currency? What else was it that the discount on Government stock bearing interest rose during the war as high as fifty per cent., and the discount on bank notes not bearing interest never went beyond twenty-five per cent? The "Tables of the Price of Bullion," published by order of the House of Commons, show, that until 1801, that is, for four years after the suspension of cash payments by the Bank, its notes were on a par with gold. The same tables also show that in the subsequent years the rise of the discount was more or less in proportion to the increase of its issues. In 1811, the House of Commons voted the famous resolution that the notes of the Bank had been, and were then in public estimation, "equivalent to the legal coin of the realm." At that same moment the discount on notes

was ten per cent. Encouraged by this resolution of Parliament, the Directors of the Bank went on increasing their issues, and the consequence was that in 1814 the discount rose to twenty-five per cent. However we may reason, and whatever influences may be ascribed to other agencies, the *ultima ratio* of these fluctuations in the price of the paper-money must be sought mainly in confidence, alias credit. It was the paroxism of discredit which turned in one day forty-five thousand millions francs of assignats into waste paper. We have an example nearer home. Some four hundred millions of paper-money were issued during the War of Independence, and which, after the conclusion of peace, reached such a depth of depreciation that it was proposed to pay off with some six millions!

A review of affairs of the United States in 1865 cannot fail to establish more firmly the principle just enunciated.

The statistics of Mr. McCulloch, Secretary of the Treasury, tell us that in 1865, after the war was virtually over, the public debt, including the payment of arrearages and 42 millions for Pacific railroads, amounted to about 3,000 million dollars, or three-fourths of that of England in 1815. The year 1866, the first fiscal year after the war, showed already a balance in favor of the Treasury of 132 millions. On a comparison, therefore, of the state of the two countries after the restoration of peace, the United States presents, under every aspect, by far the most encouraging picture. In England the debt *per capita* was some $125; in the United States barely $74. There the progress of the population and the increase of wealth was comparatively slow; here the decade from 1850 to 1860 showed 35 per cent. addition to the population, and more than 100 per cent. increase of wealth. Yet how widely different is the story told by the gold bulletins! We all remember that the premium on gold in 1866 seldom fell so low as 25, and often fluctuated between 44 to 55. With all the allowances made for the gold gamblers or the "bears," as Napoleon used to call them, there is no avoiding the conclusion that the great disparity between gold and paper money was and is owing chiefly to the want of steady and abiding confidence. We need not argue this point further, though a clear understanding of it was absolutely necessary to enable us to judge of the merits and demerits of the different financial schemes now under discussion.

No doubt the political events of the last four years had much to do in causing a kind of vague uneasiness, a certain

feeling of diffidence; and the discount of Reconstruction in some portions of the United States may justly explain the reasons of the discount of the currency. In fact, to our limited fancy, it is a matter of surprise that the poor greenbacks should have managed to live as it is. Just listen for a moment to the guardian angel of the United States Treasury:

The greenbacks, Mr. McCulloch tells us in his last report, are a dishonored and disreputable currency, (*sic.*) The fact that they are a legal tender makes them still more dishonorable to the Government and subversive of good morals, (*sic.*)

They, (the greenbacks,) the Secretary further informs us, have immensely increased the cost of war, caused instability in prices, unsteadiness in trade, driven specie from circulation, sent to foreign countries the produce of our mines, shaken the public credit, prevented ship building; and while filling the coffers of the rich, they are almost intolerable (*sic*) to the poor. A pretty strong impeachment against Greenback & Co., forsooth! and singularly suggestive. Here is a public confession, a proclamation of a Cabinet member, that the Department of which he was the head and soul was a dishonorable shop, a laboratory subversive of all good morals! How can it be expected that the commercial world at large will appreciate the currency of a country in which a member of the Government can boastingly hold such language? Imagine Pitt working hard to raise money at a rate of interest much above the legal rate, toiling to create stock, taking 50 in money in exchange for 100 in stock, and sending clandestinely the coin out of the country to those who fought against the enemy of England—imagine that great statesman and Chancellor of the Exchequer get up one day, and proclaim to the people of England, that the suspension of cash payments was a dishonor, the paying above 5 per cent. unconstitutional, and the bonds created a national disgrace! When and where was a minister of finance heard to sound vaingloriously the tocsin of national bankruptcy? Or are we to take such declarations as a mere *facon de parler?*

To turn now to the remedies proposed, and first of all let us look at the currency.

The currency—that is, the United States notes, or greenbacks—including the fractional currency, make a round total of 400 millions; the national bank notes amount to about 300 millions; grand total, 700 millions. A curious currency, no doubt. Here we have one part, 400 millions, not bearing

no interest, and 300 millions bearing interest in considera. tion of the bonds deposited by the banks at the Treasury. The combined sum is, moreover, at the same time legal tender and not legal tender. You can pay your debts with the greenbacks, but you cannot make them accepted at the custom-house. This is decidedly a sad financial *melange*.

Pointing to the growing resources of the country, the Secretary of the Treasury expresses his belief that the country can make short work of the extinguishment of the debt, and for which purpose he recommends retrenchment and the applying of an annual sum of 175 millions. He also favors the payment in coin of the principal of all the bonds.

To get out of the way the "dishonored greenbacks," Mr. McCulloch proposes, in the first place, to legalize specific coin contracts, a measure which he believes will check the export of gold and bring it out; second, gradually to divest the United States notes of their legal tender character, except concerning Government dues; third, to authorize the conversion of these notes, at the pleasure of the holders, into bonds bearing a certain rate of interest.

Senator Morton's plan bears exclusively on the redemption of the currency, or the resumption of cash payments. Contrary to the proposition of Mr. McCulloch, the Senator recommends the doing away with the greenbacks by their redemption with coin; the process of redemption to begin in 1871, when the present surplus in the Treasury is likely to accrue to 175 millions. The plan of the Secretary to convert the greenbacks into bonds is qualified by Mr. Morton as a species of repudiation. He assumes that the carrying out of his plan in 1871 will suffice to appreciate the greenbacks and to make gold come forth, and his plan contemplates, moreover, the resumption of cash payments also on the part of the banks. To make the process gradual the time of resumption by the banks is fixed for 1872.

A partial reference to his lucid and eloquent speech, delivered in the Senate, December 16, 1868, will suffice to show the scope of Mr. Morton's ideas and arguments:

"I do not believe that the existence of our bonded debt has anything, or scarcely anything, to do with the depreciation of our currency. I believe our currency would be depreciated as it is if the Government did not owe a single bond, or if all our bonds were at par. Why is our currency depreciated? And why would it be depreciated if the Government did not owe a single bond? Because the green-

back note is a promise, by the Government, to pay so many dollars on demand, which it does not pay. The promise is daily broken and has long been dishonored. The note draws no interest, and the Government has fixed no time when it will pay it. Under such circumstances the note must be depreciated."

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"The greenback currency is a part of the public debt, for the redemption of which the faith of the nation is solemnly pledged. The redemption of this pledge is not only demanded by every principle of national honor, but is imperatively demanded by the interests of the people collectively and individually. The currency of a country lies at the foundation of its daily business, and vitally effects the interest of every class and condition of people; and if the Government, overlooking its honor and its duty, should take the only means by which it can be improved, and apply it to the purchase of bonds which will not be due for many years, it would merit and receive the indignation and contempt of honest men everwhere."

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The Senator of Indiana wishes to return to specie payments "without a crash," and this can only be done "by making the process gradual."

By fixing the period of redemption, he argues, a fixed value is given the greenbacks, and a warning to the country to prepare for the change. The Senator, moreover, doubts whether as much as one hundred millions of greenbacks will be actually presented for redemption.

The Bill reported by Senator Sherman from the Committee on Finance, embraces both the national debt and the resumption of cash payments.*

The Senator of Ohio agrees with the Secretary of the Treasury as to the legalization of contracts in coin, and differs from Mr. Morton with reference to the greenbacks.

*Mr. Lynch, of Maine, introduced a plan, the principal features of which, is the issuing of gold notes, payable in a year in coin, and thus gradually to displace the greenbacks. This idea was essentially endorsed by Mr. Williams, of Indiana, but was, on the other hand, objected to especially, by Mr. Coburn, of Indiana, on the ground that it would produce contraction.

There were, during the last session, some thirteen Bills introduced in the House bearing on finance, and four Bills to the same effect to the Senate. To discuss one by one these projects, running into and crossing each other, would be waste of time, nor do we intend to enter into an argument on the schemes of repudiation, masked or avowed.

He thinks the plan of fixing a time for redemption, as conceived by the Senator of Indiana, a dangerous practice.

"Would not the effect of his measure be, that the Government would hoard the gold and the people the greenbacks, and thus make the contraction he fears? What more profitable investment could any man make than to take this dollar, now having a purchasable power of seventy-four cents in gold, locking it in his safe with a certainty that in two years it must be worth one dollar in gold, or an annual advance of seventeen and a half per cent? Would not every bank sharply contract its currency, and hoard greenbacks as the best investment it could make? What prudent man would dare build a house or a factory, a railroad or a barn, with the certain fact before him that the greenbacks he puts into his improvement will be worth thirty-five per cent. more in two years than his improvement then is worth? Why not hold his money for two years, until his building will cost him one-third less?"

Senator Sherman proposes: 1st, the conversion of the United States notes into the 10.40 bonds, bearing five per cent. interest; 2d, the issue of gold notes, payable on demand, in coin, and to be received for all taxes and duties; the amount of the gold notes to be issued not to exceed the coin and bullion in the Treasury; 3d, that a certain amount of the gold notes be applied to the purchase of the United States bonds bearing six per cent interest, and said purchase not to exceed the amount of the greenbacks converted into bonds.

The Bill also contemplates the issue of coin notes by the banks.

"The Bill," says Mr. Sherman, "seeks to substitute gradually, by the voluntary action of the people, coin contracts, coin notes, and convertible bank bills for currency contracts and irredeemable and inconvertible paper money. It seeks to secure to the public creditor the prompt payment of his interest in coin, and to the people the like payment in coin of the depreciated notes held by them. If the process is too slow, it is because the danger of a more rapid process is too great.

"The proposition in this Bill to substitute coin notes for legal-tender notes, as the latter are retired by voluntary conversion into bonds, is an attempt of the Committee on Finance, in deference to the vote of the Senate at the last ses-

sion, to effect the same object, namely, to guard against a too rapid contraction of the currency."

With reference to the debt, the Senator proposes that 140 millions should be annually applied from the customs to the payment of interest and the reduction of the principal.

The Senator of Ohio thus agrees in principle with Mr. McCulloch, as to the sinking of the greenbacks into bonds, in contradiction to the plan of Mr. Morton. And while the latter anticipates the appreciation of the currency, by the process of direct redemption in coin, the Senator of Ohio expects the like result from the intervention of gold notes payable on demand, in coin.

It is hardly necessary to explain that the success of either of these modes depends ultimately on the amount of disposable specie, and that the 100 millions now in the Treasury, and the 174 which the Senator of Indiana expects to have in 1871, are not likely to bring to par a currency amounting in the aggregate to 700 millions, and which is kept down by a greatly heavier load. To ensure the appreciation of the currency we must have a broad gold base, strong enough to not only begin, but to continue, and carry the operation through. It was in this manner that things came round in England, an example justly referred to with great emphasis by Senator Sherman, and which process was the prototype of Mr. Morton's plan. The solution of the problem in England, in 1819, the work of Sir Robert Peel, was briefly as follows:

The bank was obliged to begin to exchange its notes for gold ingots, in quantities of not less than sixty ounces, at the rate of 81 shillings per ounce, in the year 1820. This process was to continue, and at a lower rate of the gold ingots, till 1823, and when payments were to be made in the legal coin of the realm. Confident to be able to meet all the demands, the bank did not avail itself of this extension, but commenced paying in coin on the 1st of May, 1821. The fact that the public believed that the bank was able to meet all demands sufficed to put the notes in circulation, then amounting to 120 million dollars, on par with gold.

Nor can we agree with Senators Sherman and Morton as to the sore distress they impute to the transition from paper to specie payments. The picture Mr. Sherman gives of the distress of small traders, debtors, and laborers, and the loss of all confidence are, we venture to assert, not borne out by history. A close investigation of the event in England will

prove that the ground reason of all the embarrassments was corn; in other words, the farming interests, then too potent, and which rendered the importation of grain a thing impracticable. It was the want of bread, and not the reappearance of gold, that caused sore distress to the English trader, debtor, and laborer. There was, indeed, a party in England which would fain trace every evil, every sudden fall of prices, every bankruptcy subsequent to 1820 to the resumption of cash payments. One of the most intractable leaders of this party, Cobbett, came forth, week after week, with the prophecy that a return to cash payments with the present load of debts would swamp the isles of Old England. But such prophecies and reasonings do not go to set up a doctrine. Tooke, in his admirable contributions to the knowledge of currency and prices, has proved beyond all doubt that the relative contraction and expansion of the currency had very little to do with prices, and that if, after the resumption of cash payments, articles fell in price in England, the fall was much greater at the same time in the other countries of Europe.

But to look more closely to the question. The resumption of cash payments, without the necessary gradations proposed, it is maintained, will ruin the great class of debtors, and with them merchants, dealers, traders and bankers, for they are generally in debt. "It means," adds Senator Sherman emphatically, "the addition of one fourth to all currency debts in the United States!" In other words, all those who incurred debt, when greenbacks were depreciated and prices high, will have to pay one-fourth more than they got—undergo a clean loss of one-fourth. Now, we venture to assert, without fear of serious contradiction, that on a close examination of the present mechanism of society, it will be found that the creditors are by far the more numerous class; and, moreover, that such animals as pure debtors are very few in existence. Smith & Co., for example, raise $2,000 to open a grocery store, and keep book accounts with their customers, Cripps and Chips. Those two gentlemen draw a bill of $600 due in six months on Crumbleton, and get it discounted by Puffy, the money lender. Puffy, wanting money, draws a three months accommodation bill on his neighbor Goodenough, who handles the money of Mrs. Easy and the Ratling Sisters. All these parties are amphibious creatures, debtors and creditors; and this rule holds in general. But granted that debtors are nothing but debtors, what for that?

As the appreciation of the currency is a thing done without their adding something to it, why not pay their debts accordingly?

Let us suppose a case of barter. A got a cow from B, to give in return, next spring, a ton of hay; in the interval hay rose in price, and a ton of it was worth a cow and a quarter. Will A not put up with the bargain?

The above illustrations will, we believe, suffice to show how unsafe it is to start from the theory of the loss of the debtors; and the same must be said of the arguments based on contraction and expansion. The heaping one upon the other of battalions of figures, and the pointing out the ratio per capita of the currency of this and that country, will little avail in the solution of the problem before us. Irrespective of the question of the *rapidity* of circulation and its intimate connection with the value of the currency, quite irrespective of this important question, who is it that can fathom the real extent of the currency of such a country as the United States? What, in a practical sense, are the promissory notes of hundreds of firms, the notes paid on sight and checks, if not currency. And who will assume to determine the aggregate amount of their circulation? Whatever inconvenience may be experienced during the transition from a discredited to an appreciated currency, one thing is sure, viz: that, with the exchequer in good order, the volume of the currency can be made to fit every exigency.

General Butler strikes quite a different note. Instead of toilsome patchwork and languid tinkerings, he comes to us with *cornucopiæ* in hand, prompt and light-footed, and equal to any emergency. His ground idea is that the Government shall be the National Banker, and discount paper with paper. Though substantially an old plan with a new face, the General has interwoven with it ideas of his own not to be easily brushed away. His proposition is simply this: 1st. To retire from the field the greenbacks, and to replace them by new notes to the amount of some 350 millions, a sum equivalent to that of the annual taxes and duties, and these new notes to be a legal tender in every respect. 2d. To take away from the Banks the privilege of issuing notes, and give, instead thereof, the right to every man possessing bonds, to use them as deposits at the Treasury, in *lieu* of new notes or certificates of value to be issued for said purpose. By this operation the country would thus have, besides the 350 millions exchanged for greenbacks, an additional cur-

rency of about 1,500 millions. The ostensible benefits of this system would be an easy supply of money, a saving in the interest paid on the debt, and a low rate of interest on loans in general. General Butler refuses to believe that these new notes or certificates of value will be subject to greater fluctuations than a currency convertible into gold, and challenges a comparison with the currency of England.

In speaking of metallic currency, the General says:

"Instead of this money, the instrument of tyrants, which has wrought all these evils, I propose a paper currency admittedly the cheapest and most convenient, its value based not only upon the gold in the country, but upon every other source and element of the national prosperity, emancipated from the control of all other nations, whether civilized or barbarous. It is the currency for a free people, strong enough to maintain every other of their institutions against the world, whose Governments they have antagonized; strong enough to sustain the measure of their business transactions with each other independent of kings, the least, or bankers, now the most potent sovereigns in the world. It is one of the blessings of the war that we are enabled for the first time to stand alone in our industries and internal commerce as we have in our institutions."

General Butler also intimates that England was enabled to pass through a long and costly war against Napoleon, not in spite of a irredeemable currency, but with the aid thereof. (*)

As far as the United States notes or greenbacks are concerned, we see no valid reason to oppose to Butler's proposition. A currency (whatever be its material) based on the amount of the public revenue cannot, in ordinary circumstances, be much below par of the standard of value. But what shall we say of a currency of 1,500 millions resting on a debt represented in paper securities?

Granted that the United States can, as General Butler argues, cut entirely loose from the goldbase; or, in other words,

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* The Hon. S. F. Cary, of Ohio, came out with a plan identical with that of General Butler, in so far as the making of one kind of paper-currency the security of another kind of paper-currency; and the new feature in his plan is to exchange the present currency for another one bearing only three per cent. interest; and, further, to make this exchange obligatory both on the individuals and the Banks.

let us suppose that the people of this country will make up their minds to cease comparing the value of paper-money with coin; will this method suffice to eradicate the idea of value itself? Supposing the standard value of a paper dollar be a bushel of corn; if the currency be depreciated, then a bushel of corn will of course be at premium; or, what is the same thing, the paper currency would be at a discount. Supposing the paper dollar was convertible on demand into a bushel of corn, then the currency and corn would be at par, both possessing alike intrinsic value. There were times, as for example, after the discovery of the mines in South America, when people were afraid that gold was going to be depreciated; and during the reign of Queen Elizabeth, Parliament, anxious for the welfare of the colleges of Oxford and Cambridge, passed an act by which the guardians of these colleges were obliged to convert one-third of the rents into wheat and malt. Gold was thus displaced from its high pedestal; but it certainly did not do away with the idea of real value. When Sir Robert Peel, by the famous act of 1844, made the issue of notes by the Bank to rest on a base of gold held in their coffers, his object was, as he expressed it, to insure convertibility, to check the abuse of credit, and make panics less calamitous than they would otherwise be; and, when subsequently, a party arose urging a departure from the limits put by the act of 1844, on the plea that time had changed, and the demands were greater, Sir R. Peel replied by asking whether, owing to the increase of population, and the extension of railroad communications, they would demand that the foot measure be henceforth sixteen inches? Peel's theory, in short, was, that currency is not capital, and that the best remedy against commercial or financial convulsions was a currency convertible at all times into coin. There is no gainsaying this theorem; its truthfulness has been proved from the very convulsions which have since happened in England, and from which General Butler, with his wonted skill, makes out an argument for his doctrine.

England was visited with a panic in 1825 and 1847; it had one in 1857, and fresh ones in 1864 and 1866; the last one, perhaps the most terrific, known as Black Friday, or Overend Friday. All of a sudden the richest bankers Overend and Gurney, Morton and Peto the great railway contractors, and several other firms suspended payment; their liabilities amounting far above the present currency of this

country. These "big" houses buried in the dust hundreds of smaller firms; and the blind panic, a veritably monetary earthquake, made the whole land to rock. And what did Mr. Gladstone, the Chancellor of the Exchequer, and the bank do? The Government and the bank mutually agreed that the latter should draw on its reserves; and to check the "run," to raise the rate of interest to 10 per cent. This simple measure settled Black Friday. The crisis was owing to what is termed in French "*maladie du credit.*" The raising of the rate of interest to 10 per cent., which in many countries is the rule, is considered, when it happens in England, a catastrophe.

In none of these financial convulsions was the value of the bank notes touched. What stronger proof is required of the advantages of convertibility?

We, for our part, do not believe that the people of the United States are ready to chant:

> "When gold and silver are gone and spent,
> There are bank notes more excellent."

The act of the English Parliament of 1833, making the bank notes legal tender, was only made good by the act of 1844, which put the convertibility of the notes into gold beyond all doubt; and the proof of it is in the fact that before the suspension of cash payments in 1797 the bank notes were fully as good as they are now, because the people, strangers to great crises, believed in them. It was this faith in the Government that made Burke exclaim, in his contempt of the *assignats* of the French regicides, "Our paper is of value in commerce, because in law it is of none; it is powerful on 'change, because in Westminster Hall it is impotent." Unless, therefore, the people's faith comes up to the level of General Butler's expectations, the fate of the "certificates of value" will be highly problematic.

Let us leave expansion, dilation, distension, inflation, pullulation, contraction, diminution, compression, and corrugation to settle their quarrels between themselves and proceed to consider the main question, the reduction of the debt. The debt as it stood in January, 1869, amounted, in round numbers, to 2,500 millions, of which 2,100 millions are bonds bearing interest, and of these 1,180 millions are 6 per cents.

In the language of Political Economists, war debts are wasteful consumption, barren outlays entailing an annual taxation necessary for the payment of interest on a thing gone and spent. There are countries which rid themselves

of a heavy public debt by applying the *sponge*; others, more mindful of national honor, chose the methodof sinking funds and gradual extinguishment. How slow this latter process is we may see in the case of England.

In 1815 the English debt was, in round numbers, 800 millions sterling. Ever since that date the main efforts of British statesmen were bent towards cancelling the debt, and reducing its interests. Thanks to the solidity of her credit, and her coin power, the process of the reduction of the interest was carried out with marked success. In 1822 the 5 per cent. old debt were reduced to 4 per cent. Four years later the 4 per cent. was turned into $3\frac{1}{2}$ per cent., and in the years 1830 and 1834 and 44 further reductions were made, viz, to 3 per cent. Soon afterwards came the rich mines of Australia and Vancouver, auspicious events no doubt. Yet after all the devices and efforts of fifty years, the debt is now where it was, viz, 797 millions sterling, or 3,985 millions dollars. Those who saw the extinguishment of the debt at arm's length fifty years ago, fix now the date of the happy event between the years 2150 and 2200.*

True, the United States debt as it stood in January, 1869, was only 2,500 millions, and the recuperative powers of this country are greatly superior to those of England. Yet the annual interests on the debt as it is, forms a serious check on developement, especially if we take into account, as we should do, the war debts of the States.

A country which has to pay annually, say 126 millions interest, on a debt of a four years war, and which *can* spend in time of peace a sum nearly equal on the War Department with an army barely 40,000 strong, a country which thus keeps the candle burning at both ends, must wake up.†

That changes tending to diminish the expenditure and increase the revenue, might be introduced, there can be no shadow of doubt. There is something singularly suggestive in the simple statement of the Commissioner of Internal Revenue, that only half the taxes of the assessments reach the Treasury.

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*As several Honorable Gentlemen are in favor of reducing the interest on the national debt, it may be well to bring it to their minds that when this process was practiced in England, the Government gave the fund holders the option to be fully paid off in coin.

† The Report of the Secretary of the Treasury for 1868 puts down the expenses of the War Department and the Army at 123 million.

To make embezzlement of public funds instead of a "smart thing," a penal offense, as is done in England; to reduce drunkenness and ignorance in the public service to a par with sobriety and competence; to put a stop to the periodic blanket treaties with the Indians and the periodic Indian wars, &c., would certainly be great desiderata under the next administration. But why not strike a new vein?

Here is a vast territory owned by the Government lying fallow and barren, and periodically squandered away. Why not make these lands the basis of the extinguishment of the debt? Almost every European country in days of trouble had recourse to the public domain. May not the United States follow the example? Look at the *Credit Foncier* of France, which, since 1852, has become a grand national institution! The object of this company is to advance money to individuals on landed property to the amount of half the value of the property mortgaged. The company started with a capital of twenty million francs, and issued shares to the amount of two hundred millions, each share representing one thousand francs, bearing 3 per cent. interest. The land proprietors who formerly had to pay from 7 to 8 per cent. interest, receive now loans from the Credit Foncier at 5 per cent., with the additional advantage of extinguishing in fifty years the principal. The company finds its profit in the transaction from the simple reason that the sure mortgages on which their business rests enables them to get money easily at 3 per cent. Supposing our Government or Congress calls into existence an American Credit Foncier?

The report of the Commissioner of the Land Office shows that the public lands, irrespective of Alaska, consist of 1,045 million acres, comprising a large proportion of auriferous soil.

Let us, for convenience sake, assume that we have only disposable one million acres, rated at one dollar per acre, the minimum value. Let the sale of public lands be stopped, and let these lands be thoroughly surveyed and divided, say in 1,500,000 lots or sections, each section to be designated by the name of State or Territory, and otherwise specified. This done, let Uncle Sam issue an equal amount of shares, each share to represent a particular lot as its mortgage; the shares to run twenty-five or thirty years. Let us have 500,000 shares at $1,000 per share, and 1,000,000 shares at $500 per share. This would represent 1,000 millions. The share holders might be given the option to retain in perpetuity the mortgaged land on having made a declaration to

that effect within the first ten years from date, or if they preferred to have the loan returned after the expiration of the thirtieth year. Shares thrown into the market on such conditions would, we have no doubt, make it easy for Uncle Sam to raise money at 3 per cent. The 1,000 millions thus realized and applied to the purchase of bonds, would practically mean the reduction of one-third of the present interest on the debt.

By granting an exemption of certain taxes for a given time to such share holders as would declare their intention to hold the land, in the first years after the issue of the shares a sure road would be opened for the gradual, but speedy, extinguishment of this 3 per cent. debt.

Americans and Europeans all would hasten to make investments in a stock bearing a fair interest and secured on land situated under a genial sky and remarkable alike for its agricultural capacities and metalliferous strata. All that class of capitalists who are contented with small interests and good securities, and carry in their pocket consols, will feel impelled to secure an investment in a stock at once safe and indicatory of ever rising profits. The mere fact of stopping the sales of land will suffice to create a market for the shares. Land, it must be remembered, is not an article to be manufactured; and while nature put a limit to the supply, it provided by the same laws for an ever-growing demand.

These shares would—especially if made to represent a lower value than above indicated, and increased in proportion—at the same time perform the functions of currency, and without being exposed to brokerage and shavings; and Uncle Sam himself, as soon as his purse permitted him to do so, would find it to his advantage to be a large share holder himself. This operation, in fine, besides its healthy reaction on the currency, would prove, in Europe, the most potent propaganda of emigration.

This, in our humble opinion, is the most beneficial operation now practicable with reference to the extinguishment of the debt; an operation beneficial alike for the present and posterity. Indeed, Mr. Posterity—for whom we have saved the country with our blood and treasures, and by our culture and mechanical skill done sundry other useful things—will in each event, whether there will be shares to redeem or not, be able to bear the legacy with ease and grace.

EMERIC SZABAD,
(Late U. S. Army.)